

**MASTER POWER PURCHASE AND SALE AGREEMENT
SECOND AMENDED AND RESTATED CONFIRMATION LETTER**

This Second Amended and Restated Confirmation Letter, dated April 6, 2005 ("Second Amended and Restated Confirmation"), shall amend and restate the Transaction agreed to on April 22, 2002 and effective May 1, 2002, as confirmed in the Amended and Restated Confirmation Letter dated April 22, 2002 and effective May 1, 2002, between Power Contract Financing, L.L.C. (assignee of Calpine Energy Services, L.P.) ("Party A") and State of California Department of Water Resources with respect to its responsibilities pursuant to California Water Code Section 80000 *et seq.* regarding the Department of Water Resources Electric Power Fund separate and apart from its powers and responsibilities with respect to the State Water Resources Development System ("Party B") regarding the sale/purchase of the Product under the terms and conditions as follows:

Seller: Power Contract Financing, L.L.C.

Buyer: State of California Department of Water Resources

Amendment Effective Date: This Second Amended and Restated Confirmation shall automatically become effective at 12:01 a.m. Pacific Prevailing Time on the first day that CAISO commences dispatching energy and settling energy transactions on the CAISO controlled grid pursuant to an LMP System; provided that the conditions and obligations of Sections 3.1 and 3.3 of the Settlement Agreement dated April 6, 2005 between Buyer, Seller, Calpine Energy Services, L.P. and Gilroy Energy Center, LLC have been satisfied or waived in writing by Buyer and Seller. Buyer and Seller acknowledge and agree that until the Amendment Effective Date this Second Amended and Restated Confirmation shall be of no force or effect, including without limitation with respect to the interpretation of the Master Agreement for any purpose whatsoever by Seller, Buyer or any other person. Upon the Amendment Effective Date, this Second Amended and Restated Confirmation shall supercede the Amended and Restated Confirmation Letter dated April 22, 2002 and effective May 1, 2002 (as amended, for purposes of this paragraph the "Original Confirmation Letter"), and the Original Confirmation Letter shall be of no further force or effect; provided, however, that in the event of a dispute between Buyer and Seller with respect to any issue that arises out of or is related to performance of the Original Confirmation Letter, the terms and conditions of the Original Confirmation Letter shall govern.

Product:

☐ Into _____, Seller's Daily Choice

☐

☐ Firm (No Force Majeure)

☐ System Firm

(Specify System: _____)

☐ Unit Firm

(Specify Unit(s): See "Special Conditions" below.)

☒ Other

Product 1: Firm (LD) at 100% load factor, 24 hours per day, 7 days per week.

If delivered subject to and scheduled in accordance with "Special Conditions", including without limitation Special Conditions 2(a) and 2(b) below, Buyer must take and pay for energy.

☐ Transmission Contingency (If not marked, no transmission contingency)

☐ FT-Contract Path Contingency ☐ Seller ☐ Buyer

☐ FT-Delivery Point Contingency ☐ Seller ☐ Buyer

☐ Transmission Contingent ☐ Seller ☐ Buyer

☐ Other transmission contingency

(Specify: _____)

Contract Quantity:

Product 1:

January 1, 2004 -- December 31, 2009: 1000MW

"On-peak hours" are the hours from the hour ending 0700 through the hour ending 2200, Monday through Saturday (except for official NERC holidays). "Off-peak hours" are all hours on Sunday and any other day that is a NERC holiday and the hours from the hour ending 0100 through the hour ending 0600, and the hour ending 2300 through the hour ending 0000) Monday through Saturday (excluding NERC holidays).

(Above Contract Quantities, are subject to "Special Conditions " below.)

Definitions:

In addition to any terms defined elsewhere herein, the following terms shall have the meanings set forth below. The use herein of the singular shall include the plural and vice versa.

"Geographic Boundaries" means the geographic boundaries of North Path 15 of the CAISO congestion management zone as of April 6, 2005.

"Inter-SC Trades" means scheduling coordinator to scheduling coordinator trades of energy within the CAISO system that are settled pursuant to applicable CAISO rules, protocols or tariffs.

"LMP" or "LMP System" means a transmission congestion management system that uses security-constrained unit commitment and dispatch to assign prices to energy at Nodes on the transmission system based upon balanced resources and loads.

"Nodes" means the LMP nodes, as may be modified by CAISO from time to time, assigned by CAISO to physical locations on the transmission grid controlled by CAISO within the Geographic Boundaries; provided, however, that Nodes shall not include the Trading Hubs.

"NP-15 EZ Gen Hub" means the trading hub that CAISO establishes as part of the implementation of LMP based on the CAISO NP-15 congestion management zone and not any individual Node.

"Pacific Prevailing Time" means Pacific Daylight Savings Time when such time is applicable in California and otherwise shall mean Pacific Standard Time. All references to a time certain will be deemed to be a reference to Pacific Standard Time or Pacific Daylight Savings Time, as then prevailing.

"Physical Validation Rule" means the market rule that imposes a physical trade validation requirement on all Inter-SC Trades at Nodes as identified, described and defined in the CAISO's March 15, 2005 filing with FERC pursuant to Section 205 of the FPA in Docket No. ER02-1656-025.

"TAPAS" means Transitional Alternative Pricing and Settlement as generally described in the CAISO's October 13, 2004, white paper entitled "Transitional Alternative Pricing and Settlement (TAPAS) Approach to Locational Marginal Pricing (LMP)," and as may be further as defined in CAISO rules, protocols or tariffs.

"Trading Hubs" means (1) the NP-15 EZ Gen Hub and (2) the load aggregation zone that CAISO establishes as part of the implementation of LMP based on the service territory for Pacific Gas & Electric and not any individual Node.

Delivery Point: Delivery Point means the Nodes and the Trading Hubs. Seller may schedule one or more different Delivery Points on an hourly basis pursuant to CAISO protocols (or any successor protocols).

Contract Price

Energy Price:

Product 1: \$58.60 per MWh.

Other Charges:

Product 1: N/A

Delivery Period:

Product 1: January 1, 2004 - December 31, 2009

Special Conditions:

(1) See Cover Sheet to Master Agreement.

(2) (a) Notwithstanding anything to the contrary herein, (i) Seller shall arrange and be responsible for transmission service to the Delivery Point, if any; (ii) all deliveries of Contract Quantity energy shall be made by Inter-SC Trade and Seller shall obtain scheduling coordinator services necessary to make such deliveries to the Delivery Point; and (iii) Seller shall be responsible for any costs or charges resulting from the application of the Physical Validation Rule to deliveries of Contract Quantity energy.

(b) Buyer and Seller agree that: (i) all Inter-SC Trades at Nodes shall be subject to the Physical Validation Rule; and (ii) no Inter-SC Trades at the Trading Hubs shall be subject to the Physical Validation Rule.

(3) (a) An Event of Default shall exist under this Transaction if Seller schedules through CAISO or delivers less than 95% of the Contract Quantity energy scheduled by Buyer in any two consecutive calendar months (the "Default Months"). For the purposes of the preceding sentence, deliveries shall include deliveries of Contract Quantity energy through the CAISO imbalance energy market as the result of any scheduling coordinator other than Seller failing to deliver under a schedule but shall not include the use by Seller of the CAISO uninstructed imbalance energy markets to effect a scheduled delivery of the Contract Quantity energy from any of its units except with respect to (i) any underdelivery resulting from a unit Forced Outage or Force Majeure events and where Seller has submitted a schedule change as soon thereafter as reasonably practical and (ii) any underdeliveries resulting from instructed deviations from schedules directed by Buyer or the

CAISO. Notwithstanding the foregoing, any Inter-SC Trades scheduling energy for delivery at a Node that are invalidated in post market confirmation and subsequently settled at the NP-15 EZ Gen Hub price pursuant to the Physical Validation Rule shall be treated as deliveries of Contract Quantity energy under this Special Condition 3(a).

(b) Seller shall (consistent with the requirements or definitions of CAISO or its successor) provide Buyer with revenue quality data daily with respect to all deliveries of Contract Quantity energy and allow Buyer upon reasonable notice to test all meters providing such data. Buyer shall have ten (10) days after the end of each month to determine whether Seller has scheduled or delivered 95% of the Contract Quantity energy scheduled by Buyer during such month in accordance with Special Condition 3(a). If Buyer does not respond within such ten (10) day period, Seller shall be conclusively deemed to have scheduled or delivered 95% of the Contract Quantity energy scheduled by Buyer during such month; provided, however, that such ten (10) day period shall be extended day for day for each day after the end of such month that Seller has not provided to Buyer revenue quality data daily with respect to all deliveries of Contract Quantity energy during such month or allowed Buyer to test meters providing such data.

Failures to schedule or deliver Contract Quantity energy for the purpose of Special Condition 3(a) shall not include any failures resulting from metering failure or malfunction that is not the result of Seller's negligence; provided that Seller shall act promptly to repair or replace any such meter.

(c) Upon occurrence of an Event of Default pursuant to this Special Condition 3, Buyer may elect to terminate this Transaction pursuant to Section 5.2 of the Master Agreement, obtain damages pursuant to Article IV of the Master Agreement or exercise any other remedies available to it under the Master Agreement. Except as otherwise set forth in this Special Condition 3, Buyer's sole remedy for Seller's failure to schedule or deliver Product shall be as set forth in Article IV of the Master Agreement. Buyer must exercise any right it may have to terminate this Transaction upon an Event of Default pursuant to this Special Condition 3 not later than 30 days after the close of the first calendar quarter following the Default Months.

(4) Upon request of Buyer, Seller will provide Buyer with sufficient information to enable Buyer to determine whether Seller's scheduling coordinators are effecting delivery of scheduled Contract Quantity market energy purchases through the CAISO imbalance energy markets. Seller authorizes Buyer to obtain such information from CAISO as may be necessary to determine compliance with the provisions hereof or to determine whether Seller's scheduling coordinators are effecting delivery

of scheduled Contract Quantity market energy purchases through the CAISO imbalance energy markets, and Seller hereby waives its right to object to CAISO providing such information to Buyer; provided, however, that Buyer shall only use such information for the purposes of monitoring Seller's compliance with the provisions hereof. The Parties elect to make Section 10.11 of the Master Agreement applicable to such information. Seller will not submit any negative decremental bids to CAISO with respect to the Contract Quantity unless mutually agreed nor claim unavailability of Seller-owned generating capacity based on Forced Outage or Force Majeure when in fact none exists.

(5) In the event the Physical Validation Rule ceases to be in effect after the Amendment Effective Date but LMP remains in effect, the Parties agree immediately to negotiate in good faith to reach a mutually acceptable modification to the Delivery Point provisions of this Second Amended and Restated Confirmation that preserves to the greatest extent possible the Parties' respective benefits and burdens under the Settlement Agreement and this Second Amended and Restated Confirmation, as applicable. In the event such negotiations do not yield a mutually acceptable resolution of the Delivery Point issues within sixty (60) days, the Parties agree to resolve the dispute concerning modification of the Delivery Point provisions of this Second Amended and Restated Confirmation due to the post-LMP elimination of the Physical Validation Rule ("Physical Validation Rule Dispute") in accordance with the arbitration procedures set forth in Special Condition 6 below.

(6) (a) In the event the Parties and/or their respective representatives do not resolve any Physical Validation Rule Dispute in accordance with the procedure set forth in Special Condition 5 above, such dispute shall be submitted to binding arbitration in accordance with this Special Condition 6. The arbitration shall be conducted in accordance with the Federal Arbitration Act and the AAA rules for commercial arbitration in effect when the arbitration is commenced. Submission to arbitration shall be made upon the request of either Party by sending a written notice to the other Party with a brief statement of the dispute. The letter must also name the arbitrator chosen by the claimant. Within ten (10) calendar days of the date of the notice of arbitration, the respondent shall notify the claimant in writing of its choice of an arbitrator. The two (2) arbitrators so appointed shall then select the third arbitrator within twenty (20) calendar days, who shall be the chairperson of the tribunal. The chairperson shall be a person who has at least six (6) years of experience in energy-related transactions, and none of the arbitrators shall have been previously employed by either Party or have any direct pecuniary interest in either Party or the subject matter of the arbitration, unless such relationship or interest is expressly acknowledged and this prerequisite is waived in writing by both Parties. If the arbitrators chosen by the Parties cannot

agree on the selection of a third arbitrator, the selection of the third arbitrator shall be referred by either Party to the AAA. The chairperson shall be bound to schedule a hearing within six (6) months after his/her appointment and the panel must render its decision within thirty (30) calendar days after the hearing concludes. The conduct of the arbitration, the hearing, and any pre-hearing matters shall be governed by the AAA rules for commercial arbitration unless otherwise agreed to by the Parties or altered by the panel. The arbitrator(s) shall have no authority to award consequential, treble, exemplary, or punitive damages of any type or kind regardless of whether such damages may be available under any law or right. Each Party shall bear the compensation, costs and expenses of its own arbitrator and the Parties shall split equally the compensation, costs and expenses of the third arbitrator. Any arbitration proceedings, decision or award rendered hereunder and the validity, effect and interpretation of this arbitration provision shall be governed by the Federal Arbitration Act. The arbitration shall take place in Sacramento, California. The award shall be final and binding on the Parties and judgment upon any award may be entered in any court of competent jurisdiction. The Parties agree that all information exchanged in connection with any proceeding as described herein shall be deemed confidential. Until Buyer and Seller agree otherwise or a final arbitration ruling is issued in connection with any Physical Validation Rule Dispute, deliveries of Contract Quantity at Nodes shall be tagged to the generation resource at the specific Node to ensure that such deliveries remain physically validated. Such tagging shall be performed in accordance with applicable NERC protocols; provided, however, that Seller shall not be in violation of this requirement if the control area operator chooses not to perform any validation of such tags.

(b) If a Physical Validation Rule Dispute is submitted to arbitration under this Special Condition 6, the Parties agree that Morgan Stanley Capital Group Inc. is a necessary party to such arbitration and that any modifications to this Second Amended and Restated Confirmation as a result of the arbitration must be mirrored in the Master Power Purchase and Sale Agreement dated June 13, 2003 between Morgan Stanley Capital Group Inc. and Seller.

(c) For the avoidance of doubt, the arbitration procedures set forth in this Special Condition 6 are applicable only to Physical Validation Rule Disputes between the Parties. All other disputes arising under this Second Amended and Restated Confirmation or the Master Agreement shall be resolved in accordance with the dispute resolution procedures set forth in Section 10.12 of the Master Agreement, as provided in the Cover Sheet.

(7) This Second Amended and Restated Confirmation shall be of no further force or effect in the event that CAISO implements TAPAS or otherwise abandons the implementation of LMP prior to January 1, 2010.

Scheduling:

Product 1: N/A

Option Buyer: N/A

Option Seller: N/A

Type of Option: N/A

Strike Price: N/A

Premium: N/A

Exercise Period: N/A

This Second Amended and Restated Confirmation is pursuant to and in accordance with the Amended and Restated Master Power Purchase and Sale Agreement dated April 22, 2002, as amended (the "Master Agreement"), between Party A and Party B, and constitutes part of and is subject to the terms and provisions of such Master Agreement. Terms used but not defined herein shall have the meanings ascribed to them in the Master Agreement; in the event of any inconsistency between any of the terms herein and the Master Agreement, the terms of this Second Amended and Restated Confirmation Letter shall control.

Power Contract Financing, L.L.C.

State of California Department of
Water Resources separate and apart
from its powers and responsibilities
with respect to the State Water
Resources Development System

Original signed by

By: _____
Name: ROBERT KELLY
Title: EXECUTIVE VICE PRESIDENT
Phone No: (408) 792-1124
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By: _____
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